HOUSE OF CARDS

Absentee-Owned Condominiums & Neighborhood Instability

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Under contract with
The Boston Redevelopment Authority

March 1991

The most significant findings in this report are that many absentee-owned condominium buildings are in physical and financial deterioration, pose significant threats to the health and safety of their occupants and soon could become a permanently distressed class of Boston property. The condominium buildings profiled in case studies for this report exemplify the problems with Boston's absentee-owned condominiums.

Condominiums comprise a large portion of Boston housing — 13% of all residential units and 30% of the residential tax base. Yet little is known about this new class of property. This report provides a systematic description of Boston condominiums, identifies problems and suggests public policy responses to the problems.

This report documents that problems in the absentee-owned segment of the Boston condominium market are different from and more fundamental than the difficulties in the regional housing market. Because of these problems, many absentee-owned buildings are at risk of permanent deterioration.

- The majority of Boston condominiums are not occupied by the people who own them. Just 37% of all units are owner-occupied. The rest are rented to tenants by their absentee, investor-owners.
- One of every six absentee-owned units is in the foreclosure process, owes city taxes or both.
- The number of absentee-owned units entering the foreclosure process has doubled every year for the last three years up to an approximately 800 in 1990.
- Absentee-owned condominiums owe nearly $5 million in city taxes. Absentee-owned condos are responsible for 31% of all Boston residential tax arrears while they contribute only 19% of the residential levy.
- An estimated 40% of absentee- owned condo buildings (Those in which more than half of all units are absentee-owned.) are delinquent on city water bills. In comparison, about 14% of resident-owned condo buildings are delinquent on water bills.

Condos in foreclosure, tax delinquency or water delinquency represent only a fraction of all distressed condo property. For every unit or building that shows up in foreclosure or tax statistics, several others suffer from unpaid condo fees and diminished building maintenance.

Note: Throughout this report, the term "absentee-owned" condominiums refers to all condominiums not owner-occupied. The absentee category includes two sub-categories: condominiums that have been sold and are now rented to tenants, referred to in the report as"investor" condominiums and those that have not yet been sold to an individual owner but are legally changed to condominium status.

Property management companies and condominium owner associations say the most pervasive problem for condo buildings and residents is unpaid condo fees. Condo fees or "common area charges" pay for utilities like heat and water, routine maintenance like trash removal and capital expenses like roof repairs.

The deterioration of absentee-owned condominiums results from a combination of three factors.

- From 1986 to 1988, thousands of investors purchased condos at prices that were inflated above real, sustainable values. Speculative investing along with widespread fraud fueled the irrational price escalation. Investors expected continued appreciation and quick, profitable re-sales. But since 1988 condo values have fallen and many investors' units are now worth less than the purchase price.

- Now, because rental income often does not cover mortgage payments, condo fees, and property taxes, many investors are defaulting on these obligations. Investor owners lack incentive to pay their bills and maintain their property because they invested little equity in their units and because they do not plan to live in their unit.

- Meanwhile, condo associations in buildings where investor-owners predominate do not have the organizational capacity, financial incentive or legal authority to collect fees and keep up the quality of buildings.

Permanent deterioration may occur for two reasons.

First, condo associations are ill-suited to care for buildings which function as rental housing. An association of disconnected, absentee owners has less incentive and capacity to sustain its building than does the traditional, "landlord" of an apartment building. And the outdated Massachusetts condominium statutes do not provide sufficient methods for condo associations to enforce owner responsibility.

Second, there seems little incentive for anyone to purchase and restore distressed condo buildings. With condo fees in arrears, maintenance deferred and ownership divided among myriad lenders and lienholders, the costs for an investor to assemble majority control of a building and rehabilitate it appear nearly prohibitive.

This study finds that the city of Boston condominium market is actually three separate markets.

- A stable, resident-ownership market in central Boston, the Back-Bay and Beacon Hill and some buildings in other areas.

- An unstable, absentee-owned, rental market in Allston-Brighton and the Fenway and parts of other neighborhoods including Charlestown, the South End, East Boston and South Boston.

- A small category of condos in triple-decker buildings in outlying neighborhoods like Roxbury, Dorchester and Roslindale.

In the investor/rental neighborhoods preservation of condo buildings as decent quality, affordable housing is an urgent public policy issue. Just as the Granite

properties in Roxbury and Dorchester needed substantial public intervention in the 1980s, at-risk condo buildings require targeted public policy today.

Unfortunately, some of the damage to Boston's housing stock is irreversible. Some condo buildings will remain distressed. Condo conversions permanently eliminated many relatively affordable apartments. If the City Council had passed the "removal permit" ordinance to limit condo conversions when first introduced in 1984, Boston would have avoided much of the investor-ownership problem of today.

As ominous as the problems appear, they create an opportunity for reform. Concrete attainable policy options exist which could remedy portions of the problem within a few years.

This study recommends three types of public policy responses:

1. Changes in the Massachusetts' condominium laws to ensure responsible behavior by absentee-owners including: prompt condo fee payments, professional building maintenance and open, audited financial records for all buildings. Mayor Flynn,Rep Marc Draisen and a coalition of housing organizations each have introduced legislation to amend the condo statutes in 1991.

2. Public funding for acquisition and redevelopment of distressed condo buildings by neighborhood, non-profit organizations. Sizable obstacles stand in the way of acquisition of condos by non-profits but Boston housing organizations have a track record of finding solutions to difficult problems.

3. Additional strategies to protect the health, safety and tenancy of condominium tenants and owner-occupants such as: court receivership for severely distressed buildings and extensive legal and organizational support for condo residents from public and non-profit agencies.

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In July of 1990 the Boston Redevelopment Authority (BRA) awarded a contract to three organizations to produce this study on Boston condominium property and public policy issues regarding condominiums.

The contracted was awarded to the Allston-Brighton Community Development Corporation (ABCDC), the Fenway Community Development Corporation (FCDC) and the Massachusetts Tenants Organization (MTO). Project coordinators were: Ginny Guild and Kate Casa of the ABCDC, Bob Van Meter of the FCDC and Mike Fogelberg from MTO.

The contracting organizations hired Patrick Dober, an independent consultant in housing policy, to research and write the report.

Patrick Dober has worked in national housing policy for the National Low Income Housing Coalition and in local housing development for the Fields Corner Community Development Corporation. He is the author of several studies on housing policy on topics including the Federal Section 8 program, co-op housing, rent control and corporate investment in affordable housing. He holds a master's degree in public policy from the Kennedy School of Government at Harvard University.

The Allston-Brighton Community Development Corporation has a successful record of creating affordable housing in a wide range of projects. In recent years the ABCDC has become concerned about decaying conditions in condominium buildings in the Allston-Brighton area. ABCDC is working with the Massachusetts Tenants Organization (MTO) to support the tenants at 28 Quint Avenue, a 42 unit distressed condo building held entirely by absentee-owners. ABCDC is assessing the possibility of purchasing a majority interest in 28 Quint Avenue.

The Fenway Community Development Corporation has a long history of successful, innovative non-profit housing development. Since the beginning of the condo conversion boom the FCDC has worked with tenants to protect their interests. FCDC staff are tracking foreclosures and other developments at 63-70 Burbank Street and other distressed Fenway condo buildings. The FCDC may attempt to purchase and rehabilitate one or more condominium buildings.

The Massachusetts Tenants Organization is dedicated to protection of tenants rights, expansion of housing opportunities for low income people and prevention of homelessness. Over its ten year history, MTO has worked to prevent condominium conversions from eliminating affordable housing and to protect tenants from evictions due to condo conversions. MTO currently is working with tenants in several distressed condominium buildings.

Numerous individuals and organizations contributed to this report, directly and with previous research efforts. The contracting organizations and the author would like to

thank all who contributed including those on the "List of Interviews" at the end of the report and any who are inadvertently omitted from this list.

Peter Dreier, Ada Focer and Kathy Bachman supported the project throughout all phases. BRA Director of Housing Peter Dreier coordinated the BRA's involvement with the project. Former Deputy Banking Commissioner Ada Focer helped guide the research on condominium finances and mortgage lending.

The papers and comments of Karl Case of the Federal Reserve Bank and Wellesley College contributed to the interpretation of condominium market dynamics.

Banker and Tradesman editor Nena Groskind and data systems director Alan Pasnik provided research support and data on condominium sales, mortgages and foreclosures.

Bill Dischino and Susan Wade of The Finch Group Management Company spent two afternoons explaining the intricacies of condo association finances, condominium fee collection and condominium foreclosures.

Research by Elisabeth Schneider, Kelly Sullivan and Bob Gardner of the ABCDC, John Lax and Melanie Carriere of MTO and Martin Hahn and Jen Bailey from the Fenway CDC and Tufts University contributed to the report.

Robert MaCarthur provided professional data entry and research services to the project. His efforts resulted in the exhibits and tables on foreclosures.

This project could not have succeeded without the enthusiastic cooperation and professional dedication of the men and women who work for the City of Boston. In an era when public workers are often criticized, we found the employees of the six departments involved in this study to be committed, competent and helpful.

City of Boston employees who contributed include:

At the Management Information Systems Department: Director Alan Stern, Joe Pierce, Guy Labella, Jack Dahlstrom, John Cappadona and Stan Vacalarek.

At the Assessing Department: Commissioner Ted Jankowski, Rich Carlson, Ron Rakow and Charlie Davis.

At the Water and Sewer Commission: Director Robert Ciolek, Ron Catena, Ralph Tomao, Jim Schultz and Alison Markham.

At the Rent Equity Board: Administrator Constance Doty and Deputy Administrator Mark Snyder and management systems operator Joyce Koeser.

At the Boston Redevelopment Authority: Director Stephen Coyle, Rolf Goetze, Greg Perkins, Andrew Foley, Bob Arnold and Bill Costa.

Bob Lelievre created the project data base on condominiums by compiling information from various city departments.

INTRODUCTION

During the 1980s a heated public debate took place over the costs and benefits of widespread conversion of apartments to condominiums in Boston. Some said that condos would benefit the city as a new form of home ownership, affordable to a wide range of Boston residents. Others argued that condo conversion would cost the city by eliminating relatively affordable, stable rental housing.

In recent months, some attention has focused on decaying conditions in individual condominium buildings and foreclosure auctions of unsold condo properties.

To date, however, the public debate and press coverage have been somewhat anecdotal, without a complete base of empirical information. This study provides a systematic description of Boston condominium property as well as an analysis of the overall impact of condominiums on the Boston housing stock.

The study evaluates Boston condominiums in relation to the goals of the study's sponsors and the Flynn Administration to achieve decent quality, stable, affordable housing for all residents of Boston.

The study has three specific purposes:

1. To describe the stock of Boston condominium properties and trends in the market for condominiums.

2. To identify problems and issues of concern regarding the city's condominium housing stock.

3. To recommend strategies for the sponsoring organizations and city government to remedy problems identified by the report.

The study is in five sections. This Introduction is *Section I. Section II* provides a brief, overview description of Boston condominiums. Among other things, the section presents new information on condo use and ownership and divides the stock of condos into three categories: "investor-owned", "resident-owned" and "unsold". This section also provides data on the proliferation of condos and shows the dates and neighborhoods in which they were created.

Section III reviews changes in the market for condominiums over the last decade in terms of sales volume and prices. The section explains the factors that created the current downturn in the market for Boston condos.

Section IV identifies problems that result from highly speculative, investor-ownership of many condominium buildings in Boston. The problems include unpaid taxes, foreclosures, unhealthy, unsafe living conditions for building residents and the possibility that some condo buildings could fall into long-term neglect and disrepair.

Section V recommends a set of policies to help remedy the problems identified in Section IV. Changes in the state condominium laws are recommended along with programs for community development organizations to acquire distressed condominium buildings.

Section VI contains profiles of two absentee investor-controlled buildings in the Fenway and Allston. These buildings give specific examples of the problems described with city-wide statistics in the earlier sections.

Project Methodology:

The bulk of analysis derives from the data base compiled especially for this study. Interviews with a wide variety of condo market participants supplement the data and create a fuller picture of Boston's condominium market. Those interviewed include realtors, developers, lenders, condo tenants, condo owners, property management companies, and government officials. Profiles of two condominium buildings illustrate some of the underlying problems identified by the data and interviews.

The data base was created with information from the Boston's Assessing Department, Collector-Treasurer, Rent Equity Board and Water and Sewer Commission, *Banker and Tradesman* listings of foreclosures, mortgages, sale prices and dates and BRA data on years of condo conversions. The data was compiled in a desk-top computer system which was used to create most of the exhibits in the report.

In general, real estate data for various types of property in Boston and throughout Massachusetts is insufficient to provide policymakers with a clear understanding of market dynamics. One small change in the laws governing Massachusetts real estate transactions would provide a leap forward: all transactions should include a unique "parcel" number and all public records should include this number. This practice would facilitate computer analysis of real estate data and enrich the understanding of real estate markets.

OVERVIEW OF CONDOMINIUM PROPERTY IN BOSTON

During the 1980s condominiums became a significant portion of Boston's housing stock. In 1980 there were 4,500 condos in Boston. By 1990 there were 34,500.[1] Condos now comprise 13% of all dwelling units in the city and 24% of all units in multi-family buildings.[2] Condos are also an important segment of the city's tax base. As a property class, condos paid $50 million in 1990 taxes, nearly one-third of all tax income from residential property.[3] Almost 90% of Boston condominiums were built or converted since 1980. Exhibit One shows that the city added 3,000 units per year during the '80s with peak creation averaging nearly 5,000 units in 1985, 1986 and 1987.4 84% of the condominiums were created by conversion from existing housing.[5]

Condominium conversion began in the Back Bay-Beacon Hill and Central (North End and Waterfront) neighborhoods in the 1970s. In the early 1980s, conversions started in a second set of neighborhoods including Allston, Brighton, the Fenway, Charlestown and Jamaica Plain. After 1985, conversion came to a third set of neighborhoods, Boston's outlying residential areas like Dorchester and Roslindale.[6]

Exhibit Two shows the portion of the total housing stock comprised of condominiums in each neighborhood. In the Back Bay-Beacon Hill and Central areas condominiums make up 34% of all housing. In the Allston-Brighton and Fenway neighborhoods condominiums comprise 22% of housing. Condos comprise less than 5% of dwelling units in seven neighborhoods: East Boston, North Dorchester, South Dorchester, Roxbury, Mattapan, Roslindale and Hyde Park.[7]

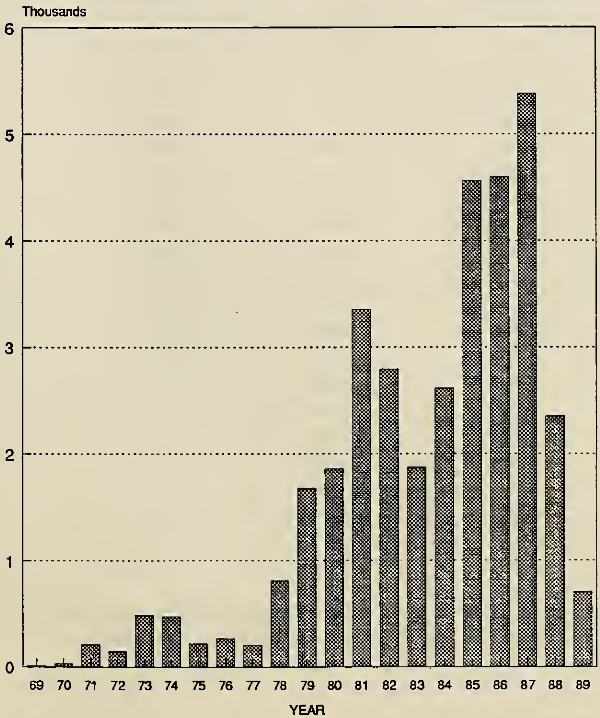
The majority of Boston condominiums are not occupied by the people who own them. Exhibit Three shows that just 37% of condos are owner-occupied or "resident-owned". other 63% are "absentee-owned" condos.

Absentee-owned condos fell into two categories. First, those that are rented by their purchasers to tenants, termed "investor-owned" condos. Second, those with legal condo status that have never sold as condo units. These are termed "unsold" condos. Aside from their legal status as condominiums, unsold condos function as traditional rental apartments with a single building owner. Investor-owned units make up 45% of all condos. Unsold condos equal 18% of all units.[8]

Of neighborhoods with significant numbers of condos, Allston-Brighton and the Fenway have the lowest levels of condo resident-ownership at 25-35%. Back Bay-Beacon Hill, Central, South-End and Jamaica Plain have the highest levels of resident-occupancy. In no neighborhood however are more than half of the condominiums owner occupied.[9]

EXHIBIT ONE

BOSTON CONDOMINIUMS BY YEAR OF CREATION



Source: Suffolk County Registry of Deeds

EXHIBIT ONE (continued)

BOSTON CONDOMINIUMS BY YEAR OF CREATION

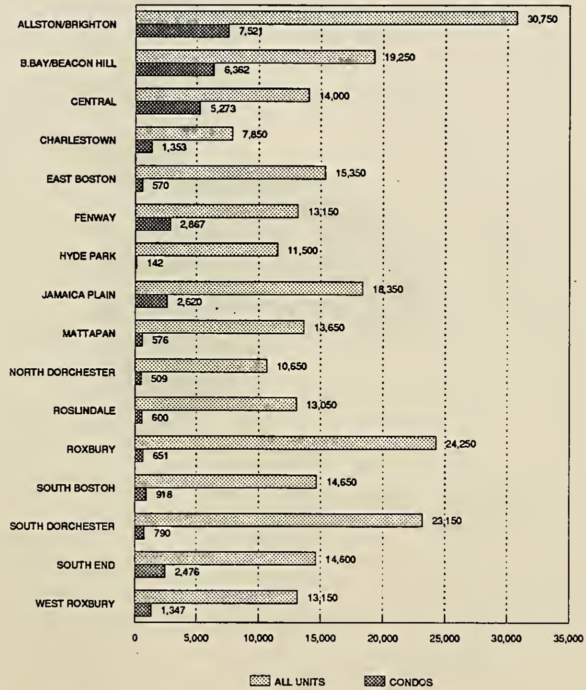
YEAR	# CREATED	% CREATED
1969	8	0.0%
70	29	0.1%
71	208	0.6%
72	145	0.4%
73	486	1.4%
74	474	1.4%
75	218	0.6%
76	268	0.8%
77	206	0.6%
78	813	2.3%
79	1676	4.8%
80	1860	5.4%
81	3357	9.7%
82	2795	8.1%
83	1873	5.4%
84	2614	7.5%
85	4560	13.2%
86	4596	13.3%
87	5378	15.5%
88	2357	6.8%
89	702	2.0%
TOTAL	34623	100.0%

Sources: Suffolk County Registry of Deeds
and Boston Redevelopment Authority Research Dept.

EXHIBIT TWO

BOSTON CONDOMINIUMS AS PORTION OF ALL HOUSING

BY NEIGHBORHOOD 1990



Source: Boston Assessing Dept
Boston Redevelopment Authority

EXHIBIT THREE

OWNERSHIP STATUS OF BOSTON CONDOMINIUMS 1990

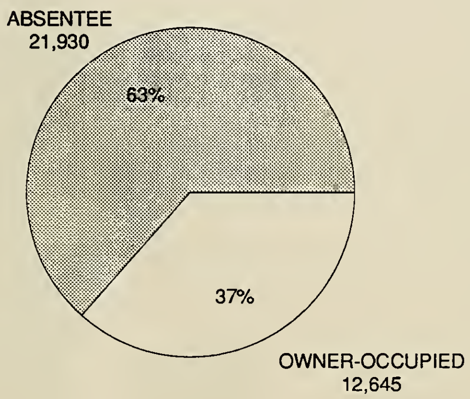
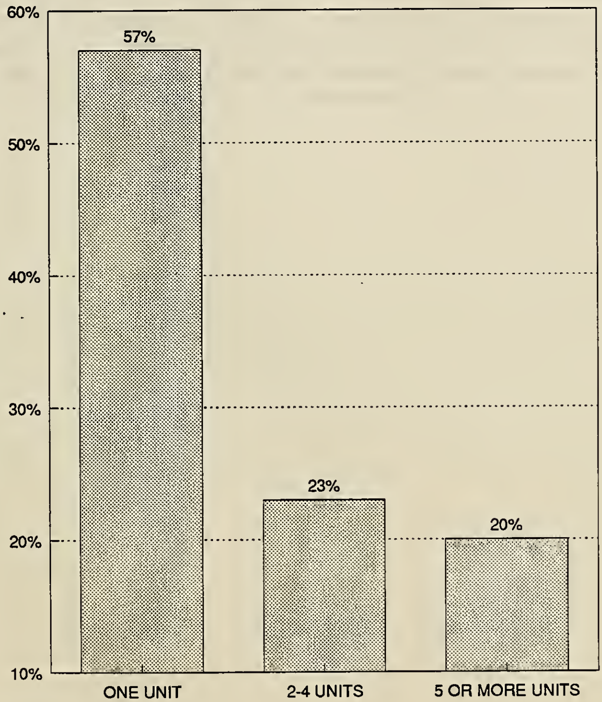


EXHIBIT FOUR

CONCENTRATION OF OWNERSHIP OF BOSTON CONDOMINIUM UNITS 1990

(Percent of all condominiums owned by individuals who own one,2-4, and 5 or more units.)



Source:Boston Assessing Department

The figures on multiple-unit ownership in Exhibit Four provide another perspective on condominium ownership. Condominium ownership is relatively concentrated. 43% of condos in the city are owned by people who own more than one condo unit. More specifically, 23% of units are owned by people who own two to four units and 19.8% are owned by people who own five or more units.[10]

Condo conversions reduced Boston's stock of rental housingaffordable for lower and moderate income people, as Emily Achtenberg demonstrated in her 1987 study *Losing Ground*. Condo conversions reduced the supply of affordable housing in two ways: by eliminating from rental status those units that became owner-occupied condos and by increasing rents in absentee-owned condos.[11] Condo conversikey factor in rapidly increasing Boston housing costs throughout the last decade. A 1990 study by the Low Income Housing Information Service based on 1988 data showed Boston to be the most expensive city for rental housing in the country. Average Boston apartment rent increased from $394 in 1980 to $805 in 1988. More than half of Boston renters spend over 30% of their income on housing. Eleven thousand families are on the Boston Housing Authority waiting list for public housing.[12] Although data is not yet available, Boston rents have declined a bit in 1990. However, rent reductions are probably very small in relation to the the ability of most tenants to pay.

THE DECLINE OF THE BOSTON CONDOMINIUM MARKET

From the peak of the condo market in 1987-1988 to the current period, condominium values have dropped by 25% to 50%, according to Boston area realtors and other experts interviewed for this study. Sales volume is off by 2000 units per year since the peak; thousands of Boston condos sit on the market without buyers. This section offers a set of explanations for the significant downturn in prices and sales volume.

The section starts with a brief review of market statistics. Next, it explains the demographic and economic trends that drove the entire New England housing market including the Boston condo market. This section reveals that beyond the factors shaping the entire regional housing market, investor speculation and an array of fraudulent practices were key forces in the over-valuation and eventual decline of the Boston condo market. In this section and the next, the study suggests that during the real estate boom Boston condominiums were more significantly over-valued than other forms of residential property and are now fundamentally less stable than other forms of residential property.

A. MARKET INDICATORS: SALE PRICES AND SALES VOLUME

Boston condo prices increased by an estimated 18% per year during the boom years of 1984-1988 as Exhibit Five shows.[13] Although median sales price figures have not changed since this market peak, condo values have dropped by 25-50%. In other words, a typical condo sold today brings only half to three-quarters of its peak price.

All realtors interviewed for this study are seeing vast price reductions. For example, Jeff Toll, a broker specializing in Allston-Brighton condos said, "The market is dead in Allston-Brighton. Prices (in Allston-Brighton) are off 40-50% from the peak".

Kevin Ahearn, a realtor in the central neighborhoods said, "The South End has lost 25-35% of its value".

Some people mistakenly argue that the unchanged median sales price figures represent stability in underlying condo values. It is important to explain why this argument is misleading and how steady median sales prices can mask decreased values.

The contradictory evidence exists for two reasons. First, medians or middle prices are a misleading comparison of year to year changes in overall market values.

To understand how medians mislead, think of all sales prices from one year in a stack, sorted by price with the median in the middle. Suppose, as is often the case, that the composition of the stacks of properties from one year to the next differs in the sizes, locations and physical qualities of properties. When the "stacks" differ, then changes in

EXHIBIT FIVE

SALES PRICES AND SALES VOLUME FOR BOSTON CONDOMINIUMS

	MEDIAN PRICE	% CHANGE PRICE	SALES VOLUME	% CHANGE VOLUME
1990	140000	0%	2526	-22%
1989	140000	1%	3229	-22%
AVERAGE 1988-90	140000	0%	2878	-24%
1988	139000	9%	4123	-30%
1987	127000	13%	5813	2%
1986	112000	9%	5928	141%
1985	102300	41%	0	45%
1984	72500	NA	0	NA
AVERAGE 1984-88	NA	18%	3966	39%

Sources: Banker and Tradesman "Trendlines" reports
as compiled by B.R.A. Research Department;
Greater Boston Multiple Listing Service.

the median figure represent changes in the composition of the stacks as much or more than changes in the underlying value of an entire market.

Median prices have not changed since the market peak because the "stack" of properties sold in the last two years is almost certainly of better quality (larger units, more central locations, more desirable physical qualities) than the stacks sold during the boom years. As evidence, the portion of all sales from Allston-Brighton, a location of relatively lower quality units, declined from 21% in 1986 through 1988 to 13% in 1990. The portion of all sales increased from the Back Bay and Central neighborhoods which have higher quality units.[14]

The second reason why sales prices exceed market values is the phenomena economists refer to as "sticky prices". In market downturns, owners stuck with over-priced property are slow to accept their losses. Currently, many condo sellers are unwilling to accept the low prices being offered by potential buyers.

During the hot market, condos sold at prices based on continued rapid appreciation, well above values justified by rental income or "cash flow" value. However, this study shows that over 60% of Boston condos function as rental housing.[15] Therefore, "condos that act as rental apartments should be and will soon be priced as apartments", according to Chris Dunn, Vice-President of the Boston Five Cents Savings Bank.

Exhibit Six shows the 1991 market value for one and two bedroom condominiums based on rental value. The value is calculated from a 20% down payment plus the maximum mortgage that can be paid from rental income.[16] The values are $54,000 for a one bedroom unit and $73,000 for a two bedroom. These prices are well below the 1990 medians of $100,000 to $120,000 in rental neighborhoods like Allston-Brighton and The Fenway.[17] Prices likely will adjust and the median sales price figures will drop well below $100,000 in 1991-92 in the rental neighborhoods as some condo owners sell their units and accept their losses.

The current supply of condos on the market far exceeds demand and contributes to downward pressure on values and sale prices. Exhibit Five shows that demand for condos (the number sold) in 1989 and 1990 is less than half of peak year volume. Meanwhile, "days on the market" which gauges the balance between supply and demand has roughly doubled since 1986 to at least 100 days.[18] A recent study by real estate consultant Robert Sennott suggests that days on the market may be well above 100 days.[19]

As further evidence of condo over supply, We showed earlier that 18% of condos have never sold. The 6200 unsold condos represents a 3-4 year reserve supply on top of the thousands of units on the market for re-sale.

EXHIBIT SIX

1991 CASH FLOW/RENTAL VALUE OF CONDOMINIUMS IN ALLSTON-BRIGHTON-FENWAY

	2 BEDROOM	1 BEDROOM
ANNUAL RENT	10200 ($850/MONTH)	7800 ($650/MONTH)
EXPENSES:		
CONDO FEE	2400	2040
PROPERTY TAX	979	712
MORTGAGE INSURANCE	197	147
RENT LESS EXPENSES	6624	4901
AVAILILABLE FOR MORTGAGE (1.1 COVERAGE)	6022	4455
MAXIMUM MORTGAGE (30 YR. FIXED AT 9%)	59738	44199
PLUS 20% DOWN-PAYMENT	13275	9822
= MAXIMUM SALE PRICE	73014	54021

Note: this analysis does not include the impact of tax benefits or losses.

Sources: Rents and fees based on local realtors' estimates. Other calculations and assumptions are current industry standards. Property taxes based on 2 bedroom assessed value of $110,000 and 1 bedroom assessed value of $80,000.

B. DEMOGRAPHIC AND ECONOMIC DETERMINANTS OF THE MARKET CYCLE

As numerous recent analyses have shown, a powerful confluence of forces propelled all forms of New England real estate in the mid 1980s, including the Boston condo market. A reversal of the same forces brought the entire housing market down.

This study suggests that both the upside and downside forces produced magnified effects on the Boston condo market. In short, when the New England real estate market was hot, the Boston condo market sizzled. But when the region turned cold, Boston condos went into a deep freeze. John Sousa, President of Commonwealth Mortgage, one of the state's largest mortgage companies said: "No segment of the market has been more affected by the downturn than condominiums. We're looking at values that are off by 30, 50, even 80 percent.".

The Boom Market

Looking back, residential real estate was in short supply throughout the region after the recession of the early 1980s. Short supply led to rapid price increases and a building boom when the economy picked up in 1983.

On the demand side of the regional upswing were: increasing numbers of home buying families due to the baby boom; increasing "household formation"; employment growth; growing real wages; easily obtained mortgages and reasonable costs for property taxes, home-heating and water.

Condominiums, a relatively new form of property, were marketeted increasing in the early 1980s as a form of home-ownership apparently well-suited to the swelling numbers of small, younger households in and around Boston. These professional, one to three person households were thought to find condominiums more affordable than traditional homes and more convenient than single family home ownership. While there clearly were some buyers who fit this "Yuppie" description of condominium homebuyers, both the reality of "Yuppie" buyers and the future potential seem to have been exaggerated during the condominium boom.

Simultaneously and perhaps more importantly, condominiums emerged as a lucrative new *investment* vehicle. Condos were an easily bought and sold, rapidly appreciating commodity, available for a 5 to 10% down payment. To a signficant extent the investment market depended on the belief that there was a large and growing market of condominium homebuyers, the "the Yuppies".

Boston experienced frenzied bidding for condos. Lee Howlett of the Appraisal Corporation recalls: "Units would never sell at the list price. Five or six people would bid against each other for a unit on the very Sunday it was advertised."

The Down Market

On the supply side of the downturn, the New England housing industry over-expanded and produced a greater supply of market rate housing than the economy could absorb. And housing prices soared beyond levels sustainable even in a robust

economy. (It is important to note that there was never an over-supply of housing affordable to lower and moderate income people, evidenced by the growing number of people on public housing waiting lists and by the increasing number of homeless people).

Demand side factors leading to the real estate downturn included: labor force reductions; lower real wages; flat or slower population and household growth; increased home heating, property tax and water bills and tighter credit especially for investment property. In addition, 1986 Federal tax law changes greatly reduced the investment value of real estate.

The downside trends were especially significant to the condo market. However large the condo homebuyer market was it was affected by the aging of baby boomers and the declining prices of single family homes which both shrank demand for condos as *home ownership*. Sharon Ripley, a market analyst for a leading national mortgage insurance company said, "there is no longer a market for condos as first time home ownership in many Boston neighborhoods." And, since half of Boston condominiums are investment properties, the 1986 federal tax law changes sharply reduce the value of the stock of Boston condominiums as *investments*. In comparison, single family homes have a smaller investment component than condos; as a result the tax law changes hurt single family home values less than condo values.

C. THE ROLE OF SPECULATION IN THE CONDO MARKET DECLINE

Federal Reserve Bank housing economist Karl Case has shown that speculation plays a central role in housing price inflation. Case points out that non-rational consumer speculation often creates "speculative bubbles" which inflate housing prices above real, sustainable values.

In a 1988 paper on consumer behavior published in the *New England Journal of Economics*, Case observed, " ... we see a market driven largely by expectations. People seem to form their expectations on the basis of past price movements rather than any knowledge of fundamentals ... home buyers in essence become destabilizing speculators." In other words, many people pay more than the real, underlying value for housing and these speculative purchases inflate prices still further.[20]

According to Case, the 1985-88 wave of New England housing price inflation illustrates this "speculative bubble" trend. Moreover, he views the Boston condo market as "a speculative bubble on top of the bubble".[21] The finding in this paper (that most condominiums created since the start of the condo boom were created as investment properties) confirms this "bubble on a bubble" theory.

D. THE ROLE OF FINANCIAL FRAUD IN THE CONDO MARKET DECLINE

Nearly all the housing market experts interviewed for this study think that financial fraud was an instrumental factor behind over-inflated condominium values. Phony appraisals and sales added a premium to the comparable sales prices on which all other sales are based.

According to former state Deputy Banking Commissioner Ada Focer, "the fundamentals for an efficient, rational market are arm's-length sales and honest appraisals. These rules were regularly violated to create false property values for condo convertors who then mortgaged and sold over-valued housing to unknowing lenders and buyers."

(An "arm's length sale" is a transaction in which the buyer and seller establish a price through a negotiation in which both desire to sell but are not compelled to do so and in which buyer and seller both have other options).

Lee Howlett of the Appraisal Corporation concurs with Focer. "The mortgage industry lost control and crime was very prevalent. There were lots of no-equity loans — the way to do this was to get an appraisal for more than the actual sale price so what looks like a 20% equity mortgage is really a 0% equity mortgage".

Realtor Kevin Ahearn said: "There was lots of questionable, or let's say highly creative, financing by some of the big condo developers in the neighborhoods like Allston-Brighton".

Other evidence pointing toward wide-spread fraud during the condo boom includes:

- 23% of condo sales after 1986 were classified as "non-arm's-length" by the City of Boston Assessing Department compared to 7% of sales before 1986.[22]

- William Lilly, who called himself the "condo king" was indicted in December, 1990 for alleged participation in an elaborate scheme to defraud lenders. According to the Boston Globe of December 21, 1990, city records show Lilly was involved in 10 to 20% of all condo conversions in Beacon Hill, Back Bay and the Fenway.23 (Lilly was a principal investor in the Burbank Street project profiled for this report).

- Former officials of the state's largest and now failed Savings and Loan, Comfed of Lowell, are alleged to have regularly falsified condo loan documents. the *Boston Globe* reported on December, 21, 1990. This study reports that Comfed holds the second highest number of foreclosed loans in the City of Boston.24

- The *Boston Globe* (January 29, 1991) documented that some condo convertors falsified buyers' income and net worth to help them qualify for mortgages.25

- In *American Banker* (1988), the director of a mortgage investigation firm stated "we find ourselves working in an industry with an amazingly large element of organized criminality. At the foundation of much of this fraud is the intentionally inflated appraisal. These manipulated appraisals serve two purposes. On the one hand, for the crook who wants to stage a sale, or refinance a property for what cash he can get out of the deal, we see appraised values at 150% to 300% of true market value. On the other hand, for the person whose intention is just to buy a property, we see appraisals at 5% to 20% above market to offset their lack of downpayment."[25a]

Following is a composite of various common forms of fraud and/or non-arm's length manipulation of values, for a hypothetical condo conversion project. While all these practices probably did not occur in any single project, the experts interviewed for this study said all these abuses were wide-spread.

- Condo convertor purchases apartment building and makes cosmetic renovations.

- Appraisal company makes false, over-valued appraisals for condo units.

- Convertor "sells" some units to non-arm's length, inside buyers, (often family members or close associates) at pre-determined prices to create the appearance of value and interest in the property. As "buyers" of units, the insiders either put their name on properties without any cash equity payment or receive low equity financing from complying banks with principal payments deferred for several years.

- Mortgages for the inside sales, secured by over-valued property, are re-sold from originating banks to unsuspecting institutions. (If the mortgages go into default, deposit insurance funds cover the losses).

- The rest of the units are marketed to real, non-insider, investor-buyers. Prospective buyers are shown under-estimated, "low-ball" budgets for the costs of owning the unit. Typically, the convertor covers part of the condo fees for the first year and then moves the costs onto unit owners in later years.

- Despite under-estimation of carrying costs, investment projections show operating losses for condo units. The expected profit for unit investors depends exclusively on rapidly appreciating re-sale value of condos.

- Convertor steers buyers to lenders that will provide low-documentation, low-equity, loans with deferred, "balloon" payments of mortgage principal. The strategy is for the investor to defer mortgage principal until re-sale for a higher price in a year or two. Convertor also helps unit investors falsify their down-payment and their ability to re-pay the mortgage.

- Convertor or other lender provides second mortgages to unit investors to further reduce investor equity requirement (down payment).

- The scenario collapses when condo values do not increase as fast as promised. Unit investors are unable to sell at a profit. Investors cannot meet mortgage, tax and condo fee payments with rental income. Investors stop paying condo fees and taxes. Without fees, condo building maintenance deteriorates. Eventually, investors default on mortgages when balloon payments are due and bank takes property in foreclosure.

ANALYSIS OF DISTRESS IN BOSTON CONDOMINIUM PROPERTY

The previous section described the decline in dollar value and sales volume for Boston condominiums. This section takes the analysis of problems with Boston condominiums several steps further. It describes problems facing several groups of people including:

A. Large and increasing financial losses for those who purchased condominiums during the condo boom.

B. Losses for banks as condo investors default on mortgage payments.

C. Lack of home mortgage credit for Boston minority neighborhoods during the 1980s while banks lent readily to condo investors in predominantly white areas.

D. Delinquent tax payments to the city of Boston as a result of the financial distress of condo investors.

This section focuses in particular on the two most urgent problems regarding Boston condominiums:

E. Unhealthy, unsafe and unreliable living conditions for tenants and owner-occupants of condominium buildings where investors have neglected or abandoned their property.

F. The possibility that without decisive public sector intervention, investor-owned condo buildings could soon become a permanently distressed class of property in Boston.

A. CONDO BUYER LOSSES

As condo values and sales decline, the most obvious losers are those who bought condos between 1986 and 1988.

Exhibit Seven shows that a hypothetical purchaser of an Allston-Brighton condo unit at the median price of $104,000 in 1987 would have *expected* to earn $49,000 from a sale in 1990 compared to an actual $32,000 loss from a 1990 sale.[26] Recall that Section II showed that almost half of all condos are owned by people who more than one unit — for these multiple unit owners, losses are in multiples of $32 ,000..

EXHIBIT SEVEN

ESTIMATED 1990 LOSS FOR CONDOMINIUM INVESTOR

	1987	1988	1989	1990
DOWNPAYMENT	$10,400			
MORTGAGE	$9,038	$9,038	$9,038	$9,038
CONDO FEES	$1,500	$1,500	$1,800	$2,400
PROPERTY TAX	$926	$926	$926	$926
MORTGAGE INSURANCE	$300	$300	$300	$300
RENTAL INCOME	$10,200	$10,200	$10,200	$10,200

1987 ASSUMPTIONS - SALE PRICE & PROFIT

	1987	1988	1989	1990	
SALE PRICE - 1987 ASSUMPTION				$170,000	
MORTGAGE REPAYMENT				$93,390	
YEAR INCOME/LOSS	($11,963)	($1,563)	($1,863)	$74,147	
				PROFIT:	$58,758
				PROFIT, INFLATION ADJUSTED:	$49,334

1990 ACTUAL - SALE PRICE & LOSS

	1987	1988	1989	1990	
SALE PRICE - 1990 ASSUMPTION				$73,000	
MORTGAGE REPAYMENT				$93,390	
YEAR INCOME/LOSS	($11,963)	($1,563)	($1,863)	($22,853)	
				LOSS:	($38,242)
				LOSS, INFLATION ADJUSTED:	($32,109)

Note: This analysis does not include the impact of tax benefits or losses.
The tax status of each individual varies but the general effect of adding taxes to the analysis would make smaller both the 1987 expected profit and the 1990 loss.
Note that this analysis assumes use as rental property. Resident-owned condos would be valued with a different model.

Financial strain on condo buyers is revealed in statistics on unpaid taxes and foreclosures. Exhibit Eight shows that 4374 condos or 13% of the over thirty three thousand condominium units in Boston owe city taxes or are in some stage of the foreclosure process, or both.[27]

While Exhibit Eight is cause for concern, **it represents only the visible tip of an iceberg-sized problem**: most investors who purchased between 1986 and 1988 paid more for condos than they are now worth and cannot sustain tax, condo fee and mortgage payments with rental income from their property.

Exhibit Nine displays trends in condo foreclosures. **Foreclosures have doubled every year going from 43 in 1987 up to 882 in 1990.**[28] Moreover, the portion of all property foreclosures in Boston comprised of condos also is increasing. **In 1987 only 11% of all foreclosures were condos compared to 42% in 1990.**[29] This trend lends support to one of the conclusions of this study that condominium properties are in greater distress than other forms of residential property.

91% of all condos put into the foreclosure process by lenders since 1987 were investor-owned as Exhibit Nine shows. Signs of instability in investor condos emerged as early as 1985 yet condo speculation continued through 1989. One early warning sign for investor condos was the withdrawal of the Federal National Mortgage Association (FNMA) from the investor market in 1986.[30]

FNMA purchases mortgages from local banks and is considered a national standard for prudent mortgage underwriting. As one of their underwriting criteria, FNMA *has never* purchased mortgages in newly constructed or converted condo buildings where more than 30% of the units are investor-owned.

B. CONDO LENDER LOSSES

Exhibit 10 lists the ten lenders with the most condo loans entering the foreclosure process from 1987 to 1990. Dime Savings Bank of New York City holds four times more units in the foreclosure process than the lender with the next largest number of bad loans, Comfed of Lowell.

Dime Savings in combination with its affiliates Dime Real Estate and Garden Management owns 16% of all Boston condo loans in the foreclosure process.31 One of the largest S&Ls in the country, Dime lost money in 1989 but posted positive earnings in the first half of 1990 and is expected to survive the recession according the *New York Times* (August 26, 1990).[32] Dime's lending in Massachusetts was part of its rapid expansion in the 1980s. Like many other S&Ls, Dime wrote mortgages in high volume, many with "low documentation" (limited scrutiny of borrowers), according to the *New York Times*.

Other lenders among the top in Boston condo foreclosures include several failed and near-failed institutions:

- Comfed of Lowell, the state's largest S&L, seized by the federal government in 1990, holds 4.2% of condo foreclosures.

EXHIBIT EIGHT

BOSTON CONDOMINIUMS IN FORECLOSURE AND/OR TAX DELINQUENT BY OWNERSHIP STATUS

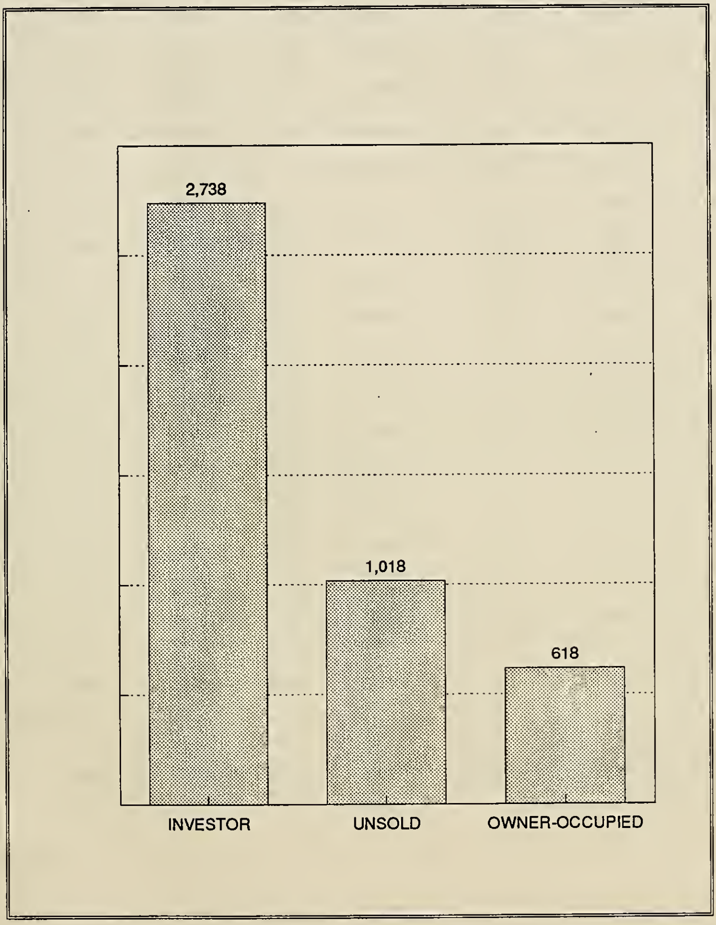


EXHIBIT EIGHT (continued)

BOSTON CONDOMINIUMS IN FORECLOSURE AND/OR TAX DELINQUENT

	INVESTOR UNITS	% INVEST.	UNSOLD UNITS	% UNSOLD	OWNER-OCCUPIED UNITS	OWNER OCCUPIED % UNITS	ALL FCL +/OR TAX
ALS	385	76.5%	66	13.1%	52	10.3%	503
BBB	291	47.0%	169	27.3%	159	25.7%	619
BRI	374	59.9%	179	28.7%	71	11.4%	624
CEN	292	64.6%	73	16.2%	87	19.2%	452
CHL	120	60.0%	51	25.5%	29	14.5%	200
EBS	102	69.4%	40	27.2%	5	3.4%	147
FEN	359	80.7%	46	10.3%	40	9.0%	445
HYP	5	38.5%	5	38.5%	3	23.1%	13
JPL	155	58.1%	75	28.1%	37	13.9%	267
MAT	40	55.6%	21	29.2%	11	15.3%	72
NDO	31	36.0%	43	50.0%	12	14.0%	86
ROS	62	68.9%	13	14.4%	15	16.7%	90
ROX	84	55.6%	60	39.7%	7	4.6%	151
SBO	79	62.7%	35	27.8%	12	9.5%	126
SDO	60	56.1%	37	34.6%	10	9.3%	107
SEN	207	59.5%	95	27.3%	46	13.2%	348
WRX	92	74.2%	10	8.1%	22	17.7%	124
TOTAL	2738	60.2%	1018	26.2%	618	13.6%	4374
COMPARE: ALL IN CITY	15703	45.4%	6227	18.0%	12645	36.6%	34575
%ALL FORECLOSED OR TAX DELINQUENT		17.4%		16.3%		4.9%	12.7%

"Sources: Boston Office of the Collector-Treasurer,
Boston Assessing Department, Banker and Tradesman"

EXHIBIT NINE

TRENDS IN FORECLOSURES ON BOSTON CONDOMINIUMS 1987-1991

	CONDOS	% CONDOS	OTHER PROPERTIES	% OTHERS	ALL
1990	882	42.4%	1196	57.6%	2078
1989	372	34.2%	716	65.8%	1088
1988	136	21.3%	503	78.7%	639
1987	43	11.3%	338	88.7%	381
ALL	1433	34.2%	2753	65.8%	4186

BREAKDOWN OF CONDOMINIUM FORECLOSURES 1987-1990 BY OWNERSHIP STATUS

INVESTOR	UNSOLD	OWNER-OCCUPIED
78.5%	12.0%	9.5%

Sources: Banker and Tradesman, Boston Assessing Department

EXHIBIT TEN

10 LENDERS WITH MOST CONDOMINIUM MORTGAGES IN FORECLOSURE

	NUMBER OF FORECLOSURES	% OF ALL FORECLOSURES
DIME SAVINGS	169	16.1%
COMFED	43	4.1%
PROGRESSIVE CONSUMERS	39	3.7%
PRIVATE INDIVIDUAL	39	3.7%
BANK OF NEW ENGLAND	25	2.4%
RESOLUTION TRUST CORP	23	2.2%
FIRST MUTUAL	22	2.1%
BOSTON SAFE DEPOSIT	17	1.6%
CITICORP	16	1.5%
NORTHEASTERN MORTGAGE	16	1.5%
TOTAL, TOP 10	409	38.9%
TOTAL CONDOS IN FORECLOSURE	1052	100.0%

Sources: Banker and Tradesman, Boston Assessing Department

- Bank of New England, taken by the FDIC in December, 1990 holds 2.4% of Boston condo foreclosures.

- Progressive Consumers Credit Union, First Mutual Bank and Northeastern Mortgage company, all troubled institutions, each hold between 2% and 4% of condo foreclosures.[33]

C. LACK OF MORTGAGE CREDIT FOR MINORITIES

Aggressive, often unsound bank lending for condo conversion, primarily in predominantly white neighborhoods, contrasts with the failure of Boston banks to meet their legal obligations under the Community Reinvestment Act (CRA) to provide mortgages in minority areas. Two recent reports, one by the Federal Reserve Bank and one by economist Charles Finn for the BRA found that Boston banks engaged in apparently discriminatory lending during the 1980s.[34]

The Finn study stated: "While banks failed to meet the demand for mortgage loans in minority neighborhoods between 1981 and 1987, they loaned heavily in lower-income white neighborhoods in which there were high levels of condominium conversion during these years. High levels of condominium conversion in Boston has eroded the city's rental stock and hurt overall housing affordability. Thus mortgage lending in Boston by Boston area banks presents an anomalous pattern: while mortgage loans appear to be freely available in lower-income white neighborhoods undergoing high rates of condominium conversions, much fewer mortgages are available in minority neighborhoods..."[35]

D. UNCOLLECTED CONDOMINIUM PROPERTY TAXES

Condominium development is a good news - bad news story for Boston tax revenues. While condos helped fuel strong growth in the city's tax base in the 1980s, a major portion of the stock of condos, especially absentee-owned condos, is now delinquent.

Absentee condos account for 19% of the residential tax levy in Boston yet owe a disproportionate 31% of tax arrears as Exhibit 11 shows. **Absentee-owned condominiums make up over 85% of all condominium tax arrears,** or $4.9 out of $5.5 million.[36]

E. PROBLEMS FOR CONDO TENANTS

Condominium tenants suffer as much if not more than anyone else from the consequences of the falling market. While condominium tenants deserve none of the blame for building deterioration they have little power to remedy their situation. Tenants in these apartments suffered from the rising rents and the threat of eviction during the condo boom and now although the boom is over they are suffering again.

Tenants in condominiums face countless problems. Some of the problems are the same as those faced by tenants in any form of rental housing. Others are unique to condominiums.[37] (Condo owned-occupant faces many of the same problems)

(Note: Although this section focuses on tenant concerns, condominium owner-occupants face many of the same problems).

EXHIBIT ELEVEN

BOSTON PROPERTY TAXES AND TAX ARREARS 1990

(OWNER-OCCUPIEDAND ABSENTEE-OWNED CONDOS)

	OWNER-OCC. CONDOS	ABSENTEE CONDOS	ALL CONDOS	RESIDENTIAL PROPERTY	TOTAL	
TOTAL TAX LEVY (MILLIONS)	$16.2	$29.3	$45.5	$105.3	$150.8	
% OF TAX LEVY	11.0%	19.0%	30.0%	70.0%	100.0%	
TOTAL ARREARS (MILLIONS)	$0.6	$4.9	$5.5	$10.4	$16.0	
% OF ALL CITY TAX ARREARS	4.0%	31.0%	35.0%	65.0%	100.0%	
% UNITS IN ARREARS	4.0%	15.0%	11.0%	NA	7.0%	(AVG)

Sources: Boston Collector-Treasurer,
Boston Assessing Department

Disorganized, Irresponsible Ownership and Management

Confusion and frustration about who is responsible for their units is a serious problem for tenants of condo buildings.

Many tenants have no way to contact their unit owner/landlord for repairs and maintenance because it unclear who the actual owner is. In many cases, tenants have no more information about their unit owner than a post office box where they send rent checks. In some cases, tenants send their checks to a real estate trust without knowing who controls the trust.

Tenants are caught in a legal bind when a unit owner does not pay condo fees or mortgage payments and a condo association or bank intervenes to collect rent to cover the fees or payments. Michael Merrill, an attorney who specializes in condominium law says that tenants fear that if they pay rent to a condo association or bank that the unit owner might try to evict them for non-payment.

On occasion, condo associations use a legal technique to collect rents in which they sue both the unit owner and the tenant. Although the suit against the tenant is a technical, legal procedure and does not put the tenant at any risk, the action obviously may cause anxiety for the effected tenant, according to Merrill.

More than one management company may operate in investor-controlled buildings, creating additional possibilities for confusion about who is accountable for what aspects of maintenance. Often one management company is in charge of common areas with others responsible for individuals units.

Poor Quality Condo Building and Unit Maintenance

The building profiles illustrate how inadequate routine maintenance and postponed capital repairs result in unpleasant, unhealthy living conditions.[38]

Here are a examples from the building profiles: at 28 Quint Avenue in Allston, tenants have suffered this winter from periods of no heat and hot water, (including the coldest day of the year), followed by periods of over-heating. At 63-70 Burbank Street in the Fenway the Attorney General brought a law suit against the building owners in 1987 for thousands of code violations and tenants say many of the violations remain today. Other conditions in these buildings include trashbags left in the hallways, leaky plumbing causing water damage to living areas, rodents and bugs, and exposed electrical wiring.

Threats to Tenant Safety

Physical and financial decay can quickly evolve into threats to tenants' lives and property as the building profiles show. Broken doors, elevators and security systems can facilitate criminal activity.

Rundown buildings attract crime because they appear easy, unmonitored targets. Police and tenants have reported: drug dealing, prostitution, breaking and entering and personal assaults in the one or both of the buildings profiled. Two fires in one week

classified as "incendiary" or deliberately set at 270 Huntington Avenue, a 95% investor owned building, raise the possibility that some condo owners might resort to arson to minimize their financial losses. In the *Boston Business Journal* Ada Focer notes that tenants in the Fenway neighborhood fear that arson as a financial strategy, common in the Fenway in the 1970s, might reoccur.[39]

Harassment and Eviction

"Our office finds that condo tenants are facing increased harassment and illegal attempts at eviction as financial conditions worsen for condo owners," said Constance Doty, Administrator of the Boston Rent Equity Board. "As owners grow desperate for cash they try to kick out tenants in order to increase the rent or to sell the unit vacant. A vacant unit can sell at a premium, especially if the tenant was under rent control," Doty said. (Units in Boston are removed from full rent control when the original tenant moves out).

Emily Achtenberg's 1987 study on condo conversion showed that 62% of condo units created in 1987 were under some form of rent control.40 Senior citizens are typical occupants of these units and are particularly susceptible to attempts at eviction.

An attempt by Michael Perry and Stephen Yellin, two of the highest-volume condo convertors in the city, to move elderly tenants out of rent-controlled apartments was disallowed by the Rent Equity Board two years ago. Rent Board Administrator Constance Doty called Perry and Yellin's plan to convince elderly rent-controlled tenants to move to Florida a subtle form of eviction.[41]

In a 1989 report on Boston housing, MIT urban studies professor Philip Clay summarized the variety of tactics available to property owners facing financial troubles: "Based on Boston's past experience, the strategies might include renting the units to larger and larger groups of students, harassing tenants who cannot pay potentially higher rents until they move, allowing deterioration to mount, and selecting tenants who won't or can't complain (i.e. illegal aliens, middle class drug operatives seeking cover etc.)."[42]

F. THE LEGACY OF CONDO CONVERSION: DECAYING PROPERTY, DISINTEGRATED OWNERSHIP

"There is a real possibility we are creating a new type of absentee or speculative owner of real estate whose behavior could undermine housing in those areas where investor-owned condominiums rather than owner-occupied condominiums dominate." So wrote MIT urban studies professor Philip Clay his 1989 report "Boston Housing Dynamics, Trends and Outlook".[43]

Now in 1991, this study of the Boston condo market provides concrete evidence that confirms Clay's hypothesis of a year ago.

The major concern in this report is that physical deterioration of investor-controlled condominiums will result in a class of permanently deteriorated property, jeopardize the health and safety of condo residents and significantly reduce the supply of decent quality housing in the city.

EXHIBIT TWELVE

DISTRESS IN INVESTOR-CONTROLLED CONDOMINIUMS BUILDINGS 1990

WATER/SEWER DELINQUENCIES

	CONDO BLDGS OVER 50% ABSENTEE	CONDO BLDGS UNDER 50% ABSENTEE	ALL BUILDINGS IN CITY
# BILLED PROPERTIES	1673	1529	71741
# DELINQUENT	657	213	16709
% DELINQUENT	39.3%	13.9%	23.3%

Note: Figures are estimates based on 50% match of water and sewer data to assessing data.

Sources: Boston Water and Sewer Commission, Boston Assessing Department.

NUMBER OF CONDOMINIUM BUILDINGS WITH 3-5, 6-8, 9-11, AND 12-OR-MORE UNITS IN FORECLOSURE

NUMBER OF UNITS IN FORECLOSURE IN BUILDING

	3-5	6-8	9-11	12	TOTAL
BLDGS OVER 50% ABSENTEE OWNED	64	18	4	6	92
BLDGS UNDER 50% ABSENTEE OWNED	8	0	0	0	8

Sources: Banker and Tradesman, Boston Assessing Department

Exhibit 12 shows further evidence that a significant portion of investor-controlled buildings in Boston are in distress. Investor-controlled buildings (defined as less than 50% owner-occupied) are three times more likely to be delinquent on city water-sewer payments than non-investor controlled buildings.44 And nearly all (92%) of the buildings with three or more foreclosed units are investor-controlled.[45]

The process of deterioration starts when unit owners do not pay their monthly building maintenance fees to the condominium association. Even in the days of the hot market many condo investors planned to forego condo fees until sale of their unit. Now, as investors discover they cannot sell their over-valued units for a profit they have even smaller incentive to pay condo fees. Volunteer condo association officers lack the resources and legal clout needed to enforce payment of fees.

Maintenance problems and disinvestment can begin when condo convertors sell off units without providing fully-funded maintenance and reserve accounts. As a result, some condo associations discover they must increase fees in the first year of operation or accept diminished building upkeep from the start.

When banks take units in foreclosure, condo associations usually lose any chance of collecting fees owed by the foreclosed owner. As a result, condo associations again must choose either a permanent reduction in building maintenance or increased charges on the remaining owners to make up for lost fees.

The ownership structure of investor condominiums defines them as a less stable form of property than traditional rental property. In his 1989 report, Philip Clay compared the incentives of the multiple owners of a condo building with the individual owner of an apartment building. Clay explains that the owner or "landlord" of an apartment building has a stronger incentive to maintain and upgrade a building since he or she alone will lose or gain from the future value of the building. In contrast, each unit owner in a condo building has a small stake in the future value of the entire building. And this stake diminishes to near zero as units become worth less than their purchase price.[46]

In the *Boston Business Journal* (August 15, 1990), Boston attorney Joel Feinberg presented a insightful summary of problems related to investor-owned condominiums. According to Feinberg:

"Unfortunately, the real estate rampage ... has spawned a series of condominium projects that are, in effect, under-capitalized, group-owned, multi-family housing projects ...

"While the more dramatic problems are those empty high-rises whose photographs appear in the newspapers, the issues are even more difficult for tenants who are not forced to leave but stay on in condominium developments. At one time such condos may have been viable rental housing, but as condominiums they have become distressed real estate.

"Unlike the incomplete or unsold condominium projects that at least have the benefit of a single lending institution that has a considerable financial stake in seeing the project through, these inhabited projects are easy prey for disaster as investor-owners exhaust

their resources and/or their willingness to sustain condominium fees, taxes and mortgage payments. The fragmented, usually absentee ownership bodes badly for those living in conversion projects.

"With no ... one deep pocket party having enough of a vested interest to keep the project going, it is likely that these projects will drift and deteriorate in a scenario already familiar in today's marketplace. Unit owners will forego their monthly common-area costs ... Necessary long-term capital improvements will be postponed and many projects may find it more and more difficult to meet ongoing expenses.

"It is in this manner that rental housing becomes the real victim of condominium conversion."[47]

A CONCLUSION: THE THREE-TIER CONDO MARKET

Three distinct condominium markets exist in Boston: first a stable, resident-owned market centered in the Central, Back Bay and Beacon Hill neighborhoods and second, an unstable rental market characterized by investor-ownership and high rates of foreclosures, tax arrears and other physical and financial distress. This market includes many of the condo buildings in Allston, Brighton and the Fenway, as well as Charlestown and the South End.

Kevin Ahearn, a residential broker in the downtown area observed, "The downtown condo market represents home ownership for Boston's corporate executives. Boston will always have professionals moving in and out so there will always be high demand and prices for the condos in this area".

Exhibit 13 displays by neighborhood the rates of units in tax arrears and/or bank foreclosure. Among neighborhoods where condominiums comprise more than 5% of all housing units, Allston, Brighton, the Fenway, Charlestown and the South End have the highest levels of distressed condos at around 15% in each neighborhood.[48] Not surprisingly, these neighborhoods also have high levels of investor-owned units.[49]

A third, distinct type of condo properties are triple decker conversions in outlying neighborhoods like Dorchester, Roxbury and Hyde Park. Triple decker conversions in outer neighborhoods, however, are not yet numerous nor contiguous enough to be considered a third condo "market". Condos represent less than 5% of all dwelling units in the outer neighborhoods.50 However, if the Boston area economy experiences strong growth in housing demand in the future, neighborhood triple deckers would be the most logical targets for condo conversion.

EXHIBIT THIRTEEN

BOSTON CONDOMINIUMS IN FORCLOSURE AND /OR TAX DELINQUENT BY NEIGHBORHOOD 1990

	TOTAL CONDOS IN NBHD	UNITS TAX +/OR FCL	% UNITS TAX +/OR FCL
CITY-WIDE	34575	4374	13%
ALLSTON	3380	503	15%
B.BAY/BEACON	6362	619	10%
BRIGHTON	4141	624	15%
CENTRAL	5273	452	9%
CHARLESTOWN	1353	200	15%
E.BOSTON	570	147	26%
FENWAY	2867	445	16%
HYDE PARK	142	13	9%
JAMAICA PLAIN	2620	267	10%
MATTAPAN	576	72	13%
NORTH DORCH	509	86	17%
ROSLINDALE	600	90	15%
ROXBURY	651	151	23%
SOUTH BOSTON	918	126	14%
SOUTH DORCH	790	107	14%
SOUTH END	2476	348	14%
W.ROXBURY	1347	124	9%

Sources: Boston Assessing Department,
Office of the Collector-Treasurer,
Banker and Tradesman.

RECOMMENDATIONS FOR PUBLIC POLICY RESPONSES

Despite the gravity of the problem described in the previous sections, it represents an opportunity for reform. Concrete, attainable policy options exist which could remedy portions of the problem within a few years. And swift action on the condominium issue now can avert greater deterioration of condo property in the future.

This report presents recommendations in five categories. They are a mutually enforcing set of strategies that together can protect condominium residents and restore valuable housing resources for the city of Boston.

A. Changes in state condominium laws to require condo developers, condo associations and investor owners to maintain decent quality housing. These recommendations offer the most immediate hope for stabilizing the stock of condominiums and protecting condominium residents.

B .Changes in state laws to strengthen the ability of condo residents to rescue severely distressed buildings by placing them under court receivership.

C. Suggestions for public programs to help community organizations purchase and redevelop at-risk condominiums and preserve them as decent, affordable housing.

D. Reforms in the housing finance industry to discourage destabilizing speculation in condominiums.

E.Suggested roles for non-profit groups and government agencies to monitor high-risk condo buildings and provide organizational and legal support to residents of deteriorating buildings.

A.REVISION OF STATE CONDO LAWS TO CLARIFY INVESTOR RESPONSIBILITIES

Written in 1963, the condominium chapter of the Massachusetts General Laws (chapter 183 A) is outdated. The authors of the law did not foresee that non-resident members of condo associations would have weak incentive to uphold their responsibilities to the association and tenants. 183A does not provide sufficiently clear requirements for payment of condo fees nor does it treat absentee-owners as a distinct class of owners.

Following are ten recommended amendments to the Massachusetts condominium statute. Six of the proposals have been introduced as 1991 state legislation by Representative Marc Draisen. The Draisen bills were drafted by a loose coalition of city

officials, attorneys, property management companies, tenant advocacy groups and community development corporations. Two of the proposals were introduced as a single piece of legislation on behalf of Boston Mayor Flynn as the "Condominium Investor Responsibility Act". Two of the proposals are not currently in the form of legislation.

- **Require absentee owners to post bonds for condo fees.** (Flynn)
  Investor-owners in buildings more than 30% absentee-owned should be required to post a bond (an insurance policy) for the value of twelve months' fees.

- **Require absentee owners to escrow condo fees.**
  As an alternative or addition to the bonding policy above, non-residents of condo units should be required to pay the equivalent of two months' condo fees into an escrow account when they purchase a unit. The condo association would draw on the account if an owner failed to pay monthly assessments. Owners would receive escrow interest and the unused portion of their deposit upon sale of their unit.

- **Ensure that building convertors pay condo fees.** (Draisen)
  Condominium convertor/developers should be required to pay a full share of condo fees for every unsold unit in a building. Condo developers sometimes do not pay condo fees for units on the market. In such cases, when condo associations take control of buildings from developers, they inherit under-funded operating accounts.

- **Give tenant option to pay rent to cover unpaid fees.** (Draisen)
  When absentee-owners do not pay fees, tenants should have the option to pay rent directly to the condo association in the amount of the unpaid fees. The Greater Boston Real Estate Board (GBREB) introduced a variation of this amendment in 1990. The GBREB bill would allow condo associations to *collect* rent to make up for unpaid fees rather than giving the tenant the option. Giving tenants the option is preferable because it would protect them from condo associations that might unfairly seize or mismanage condo fees. One can assume that in most cases, tenants would willingly direct a portion of rent to cover unpaid fees when informed by the association that an owner is in arrears.

- **Require adequate funding of capital accounts.** (Draisen)
  Condo associations should maintain "capital reserve accounts" to pay for major repairs. At minimum, the reserve account should total two months of fees for each unit in the building. The developer/convertor should provide the initial funding for capital reserves. The developer would withdraw his funds on the sale of individual units. Unit buyers would be required to supply a share of capital funds at purchase.

- **Collect unpaid fees from foreclosure sale proceeds.**
  The condo association should hold the first lien position and receive up to six months of unpaid condo fees from the sale proceeds of a unit. This "super-lien" exists in other states such as Rhode Island. Combined with the changes above, it provides an additional method to ensure payment of condo fees. This remedy in particular addresses lender foreclosure and sale of a unit with condo fees in arrears. Under current law, the condo association has the third claim to foreclosure sale proceeds; the association only collects unpaid fees in the rare event that the foreclosure sale amount exceeds the outstanding mortgage and outstanding taxes (the first and second liens). Since the proposed escrow, bonding and rent collection remedies would ensure collection in most cases, the "super-lien" would rarely be triggered. Nevertheless, the

mortgage lending industry might oppose the amendment. A version of this bill has been proposed by the Greater Boston Real Estate Board.

- **At a refinancing, require lender to verify fees are current.**
  183 A requires banks to verify that condo fees are current before sale or refinancing of a unit and discharge of a mortgage. Verification is supposed to be obtained in the form of a "6(d) certificate" issued by the treasurer of the condominium association. In some cases banks do not fulfill this obligation — units change hands and the seller escapes with fees forever unpaid. Legislation should be introduced to clarify the language of this section of 183 A and to enforce lender responsibility to obtain 6(d) certificates.51

- **Require owners to designate local management agents.** (Flynn)
  All unit owners should designate a property manager responsible for building maintenance and repairs. The manager should live within 25 miles of the building. The management agent and unit owner should be personally liable for unit maintenance. This amendment address the problem that out-of-state investor-owners sometimes do not provide a agent to take care of their unit.

- **Require professional standards of management companies.** (Draisen)
  The state should require companies and individuals that manage condo buildings to maintain separate accounts for each condo building; maintain separate accounts for capital reserves and operating funds; provide regular financial statements to all tenants and allow tenants and owners to inspect condo association finances at any time.

- **Allow tenants, owners and prospective buyers to inspect association finances.** (Draisen)
  In tandem with the requirements for management company financial propriety, condo associations and their management agents should be required to disclose their financial statements to any tenant, lender or prospective buyer. The condo association financial documents should record which owners owe condo fees and how much.

B.REVISION OF STATE RECEIVERSHIP LAWS

In cases of severe investor disinvestment, tenants and responsible owners need legal means to take control of their housing, away from the condominium association. One possibility is for residents to force the condominium association or owners of multiple units into bankruptcy and to obtain a court-appointed receiver to care for the property while ownership is re-structured. The Massachusetts Law Reform Institute wrote legislation in 1991 on behalf of the Massachusetts Tenants Organization to facilitate the receivership strategy. The bill would give receivers expanded powers to borrow and spend funds and to repair a building without personal liability. This bill would apply to all residential buildings, not just condominiums.

C.CONDOMINIUM RE-USE AND PRESERVATION PROGRAMS

Reform of the condominium statutes and related laws can help stabilize the stock of condo properties but does not address two other fundamental problems. First, rents for Boston condos continue to exceed the ability to pay of many Boston residents. Second, some condo buildings are so run-down that changes in condo laws will arrive too late to rescue them from permanent decline.

Acquisition and redevelopment of distressed condominium buildings by community development corporations (CDCs) and other non-profit groups can salvage badly deteriorated buildings and create housing for low and moderate income people.

Declining prices and foreclosures may provide opportunities for CDCs to purchase entire buildings and preserve them as decent quality, affordable housing.

While private developers also could certainly play a role in salvaging distressed buildings, it is probable that few will be interested in taking on the formidable challenges that these buildings present, particularly the most distressed. Community development corporations whose goals include both neighborhood stability and the creation or preservation of affordable housing are more likely to take on these buildings.

Some might argue that disposition to individual homebuyers is the best strategy for salvaging distressed, foreclosed condominiums. This view argues that the best use of public funds is downpayment assistance for those who might want to buy foreclosed units. While there are certainly enough distressed properties in Boston to test a variety of strategies, a rental strategy is the most appropriate for several reasons:

- As Exhibit 12 shows, nearly all foreclosed condo units are in investor-controlled buildings. The ownership structure of these buildings is unstable and many of the buildings are in severe disrepair. Public funds would be inefficiently used and buyers would fail to obtain a stable investment by purchasing a unit in a distressed building. The high percentage of investor ownership will make it very difficult for prospective homebuyers to obtain reasonable financing as the mortgage will not meet secondary market standards. (FNMA requires 70% owner occupancy for condominiums)

- Since the root problem in investor condominium buildings is the fragmented ownership structure, run-down condominiums can best be salvaged by controlling entire buildings, rather than selling off distressed units piecemeal.

- Since most foreclosed condominiums are currently occupied by tenants, an ownership strategy would create displacement of the existing tenants.

- Finally the majority of foreclosed units are small units designed as rental housing and located in traditional rental areas of the city. With prices for single family homes and new construction "townhouse" type condominiums dropping, it is unlikely that potential homebuyers would want to purchase many of these apartments as ownership housing.

This report recommends that private, public and quasi-public organizations make a significant commitment to fund and support CDC acquisition of condo buildings. Five years ago an alliance of government agencies, foundations and private corporations called the Boston Housing Partnership made an all-out commitment to save the distressed "Granite Properties" apartment buildings in Dorchester and Roxbury. The condo problem in Allston-Brighton and the Fenway poses a problem of similar magnitude and warrants an equal response.

CDCs would want to "re-convert" condo buildings to a use that would ensure long-term affordability: either subsidized rental housing or limited equity ownership housing. To change the legal ownership status of a condominium building requires a

75% vote of the unit owners.52 So to attain their goals CDC would need to acquire 75% of a building at prices within the CDCs' ability to pay.

Obstacle to preservation: purchase prices

CDCs could pay no more for condo units than the price justified by rental income or "cash flow". As this report predicts, prices for many units in non-central neighborhoods are dropping to their cash flow value.

Lenders in possession of foreclosed units are a prime source for CDC purchases. Foreclosed units owned by banks may sell at below market prices. However, the expectation of most people in the affordable housing field that banks would offer deep discounts has not materialized. Many of the banks struggling to survive are not willing to offer significant discounts on foreclosed property.

CDCs like those in Allston-Brighton and the Fenway already are developing relationships with the regulators at the Resolution Trust Corporation (RTC) and the Federal Deposit Insurance Corporation (FDIC). These institutions control several of the lenders with the most foreclosed condo loans in Boston and will soon control several more (see Exhibit 10 in Section IV). The RTC and FDICshould reconize the lower value of foreclosed property and thereby offer lower prices.

Obstacle to preservation: acquiring control of entire buildings

The patchwork ownership of most distressed buildings presents the biggest hurdle to CDC acquisition. Most troubled buildings are owned by dozens of owners, each with multiple liens (claims by others) on their property. To purchase a unit requires satisfying the claims of the condo association for delinquent fees, the city tax collector and up to three mortgage lenders. Some lien holders may be in litigation with condo owners which could stall sales. Some owners may be in personal bankruptcy which could also stall a sale. To manage acquisition costs CDCs will want to focus on buildings where lenders and individuals own blocks of distressed units and also look into acquiring small buildings

Obstacle to Preservation: Financing and Subsidies

CDCs would need public subsidy funds for: acquisition capital, rental/operating subsidies and mortgage financing. Although the need for funds arises at a time of reduced government spending, CDCs should be able to obtain certain sources of funds.

Lenders are a likely source of permanent mortgage financing for CDC purchases of units on which they have foreclosed. In its two successful condo buy-out projects the Massachusetts Housing Partnership (MHP) obtained reduced-rate permanent financing from the project lenders. Providing reduced-rate financing allowed the lenders to clear their books of troubled assets and earned them Community Reinvestment Act credit.

Also, CDCs can take advantage of programs designed to work in conjunction with non-profit purchases of RTC property such as reduced-rate permanent financing from the Federal Home Loan Bank Board.

Non-profit ownership of condos for use as rental housing could create some confusion about the types of funding available to CDCs. For example, banks might consider CDCs as investor-owners of condos and subject to the stringent underwriting criteria for investors. CDCs also might have trouble qualifying for Mass Housing Finance Agency (MHFA) reduced rate mortgage financing if condo buildings were used for a mix of ownership and rental housing, according to Linda Conroy of MHFA.

Issues Regarding Program Design

Those people who design Boston programs to acquire and preserve condominium buildings should keep in mind the lessons from the few other condo preservation programs attempted in other areas.

- Experience from the Connecticut "CONDAP" program and the Massachusetts Housing Partnership's Market Opportunities Program indicate that detailed program specifications can be counter-productive. Condo financing and ownership varies so widely that each building buy-out strategy will be unique. Each building will require a different mix of subsidies and support.

- Connecticut announced their condo preservation program last year with fanfare only to cancel the program due to damaging public criticism. Critics claimed that the program would bail-out undeserving condo developers while unfairly reducing the value of units owned by individual investors.53

Additional Approaches to Preserving Distressed Condos

1. Sale of Bank-Owned Units to Individual Home Buyers

The mission of Citizens Housing Association (CHA), an offshoot of Citizens' Energy Corporation, is to match low to moderate income, first-time homebuyers with units foreclosed and owned by banks. CHA acts as the middle-person between banks that need to sell property and people with modest resources who want to own a home. The CHA approach bypasses the difficult CDC task of acquiring and controlling entire buildings. CHA has brokered only a few sales. Thomas Bledsoe the former Chief Operating Officer of CHA says its efforts are hampered by banks' unwillingness or inability to dispose of properties at a discount

2. Redevelopment of Unsold, New Construction Condo Buildings

The CONDAP and MHP programs were designed to acquire failed, *unsold new construction* condo projects and redevelop them as affordable housing. Although acquisition and re-use of failed, new condo projects may be simpler and less costly than redevelopment of Boston's *converted* buildings, the Connecticut and MHP projects have had limited success.

The Connecticut program ended due to damaging public relations after five buy-outs of failed condo developments. Designed with the Connecticut lessons in mind, the low-profile, project-specific MHP "Market Opportunities" program has completed two projects. Market Opportunities provides a one-stop package of subsidies to private or non-profit developers. To date Market Opportunities has redeveloped a failed condo project in Quincy into rental housing and one in Webster to ownership housing.

3. Reconversion of Unsold, Converted Buildings

There are 277 Boston buildings for which the legal status has been changed from apartment to condominium yet no individual condo units have sold.54 These *unsold conversions* function in all respects as apartments except the owner has obtained a condominium master deed which in effect functions as an option to sell individual units as condos. Many of the owners of these buildings planned to sell thier units but did not because of the market downturn. Assuming that apartments provide more affordable, stable housing than condos, the city would benefit if these buildings never become condos.

Building owners may be in financial straits from outstanding conversion-construction loans and from increased property taxes. (The city taxes condos at a higher rate than apartments). CDCs or others might be able to negotiate favorable purchase prices from financially strapped owners. Also, some owners of unsold condo conversions might voluntarily rescind their condominium master deeds in order recieve a refund of the Tregor tax payment. The city refunds the $500 per unit condo conversion "Tregor tax" when buildings are re-converted to rental status.

4. Use of Condos as Special Needs Housing

Public or non-profit organizations might consider redevelopment of condominiums as special needs housing. Sizable funds exist for housing for the elderly, people with the HIV virus, handicapped individuals and so on. Since most condo units are one or two bedrooms they might be better suited to special needs for individuals than family housing.

5. Other Opportunities in the Weak Real Estate Market: Acquisition of Apartment Buildings

Given reductions in prices of all kinds of property, public and non-profit housing organizations should pursue purchase of bargain-priced residential property of all types. One example is foreclosed apartment buildings. Prices for foreclosed apartment buildings are also declining and acquisition would be simpler since there is only one owner.

D.REFORM IN THE HOUSING FINANCE INDUSTRY

The housing finance industry including lenders, brokers and appraisers needs major reform. By the time of the next market upswing controls ought to be in place to disallow another round of destablizing condo speculation. Industry reforms, however are not a focus of this report. Federal government agencies and industry organizations have initiated many reforms although their job is far from completed. Examples of reforms include: institutions like FNMA and the mortgage insurance companies have stopped or curtailed lending for investor condominiums; low-documentation loan programs have ended and legislation to regulate the appraisal industry is required of all states under the rubric of the savings and loan bail out. For the last several years, Mayor Flynn has proposed that mortgage companies be regulated by the state banking commissioner.

E.FUNDING FOR ORGANIZATIONS TO CARRY OUT CONDO REFORT

The success of condo housing preservation programs and legal reforms depends on their implementation. Strategies can succeed if they are carried out by organizations that have strong organizational capacity and are rooted in local communities. Capable, grassroots tenant organizations, community development corporations and legal services attorneys already exist in Boston. These organizations' resources are stretched thin however and they will need new funds to carry out condo preservation and reform. The threat to affordable housing calls for major funding commitments from city and state government, foundations and corporations to these groups.

This report identifies the need for resources for four kinds of community organizations.

- **Tenant advocacy groups.**
  Tenant groups such as the statewide Massachusetts Tenants Organization (MTO) and neighborhood groups are needed to help the residents of distressed condominium buildings develop the organizational capacity to remedy their situation. MTO or other organizations should develop special materials, designate staff and hold tenants' rights workshops for condominium residents.

- **Tenant attorneys.**
  Condo tenants often do not understand their rights. If legislative reforms pass, tenants will gain new legal tools but may not know about them. Attorneys are needed to provide legal services, tactics and information to condo residents. Greater Boston Legal Services gives legal aid to tenants but their work focuses on very low income people and residents of traditional apartment buildings. New resources for GBLS, or others would allow attorneys to try class action test cases, enforce new provisions of the condo statute and petition the courts for receivership in distressed buildings.

- **Community development corporations** (CDCs).
  CDCs are neighborhood organizations that build affordable housing and run local economic development programs. CDCs and other, similar organizations should play two roles in the campaign to rescue condo housing. CDCs should carry out condo preservation programs and also serve as tenant organizers and advocates.

- **An organization to maintain data on condo buildings.**
  A non-profit organization or government agency should be designated to maintain data on condominium buildings. The organization would provide reports on the overall condition of the condo market as well as information on individual high-risk buildings to tenant and neighborhood organizations. The office could also publish a regular "watch list" of buildings in substantial danger. In the 1970s the Fenway neighborhood deterred arsonists by compiling a system to identify and publicize buildings at-risk of arson. This system grew into the Boston Arson Prevention Commission. Organizations that could provide a similar condo information system include: the Massachusetts Tenants Organization, the Boston Redevelopment Authority, the Arson Prevention Commission or a newly created organization.

PROFILES OF DISTRESSED CONDO BUILDINGS

Note: all of the information in these two profiles of condominium buildings comes from: city of Boston 1990 records from the Assessing and Collector-Treasurer departments, Suffolk County Registry of Deeds documents, listings in *Banker and Tradesman,* interviews with building residents, and published newspaper reports. The information on mortgage financing is based on a thorough search of Suffolk County Registry records. However, since the Registry information system is complex and not always complete, it is possible that some details have been overlooked.

BUILDING PROFILE #1

28 QUINT AVENUE, ALLSTON

28 Quint Avenue is a five story brick building located between Commonwealth Avenue and Brighton Avenue in Allston. The building was sold by Harold Brown's Hamilton Realty Company in 1985 to Michael Perry and Radcliffe Realty Trust. Perry then changed the legal status of the building from apartment to condominium.

Of the 41 units in the building, only one unit is occupied by it's owner, according to 1990 Boston Assessing Department records. The rest of the units are absentee-owned and rented to tenants.

The 41 condominium units were sold off in two distinct sets of transactions. The first set of transactions occurred within a two week time period from December 29, 1986 to January 1, 1987, according to documents from the Registry of Deeds.

In the first round of transactions, seven people purchased a total of 22 units from Perry's Radcliffe Realty Trust. The buyers included Pavel Rabinky (6 units), Yevgeny Dvorkin (5 units) and Arkady Buman (4 units).

Registry documents show that nearly all of the units followed the same pattern of financing which involved:

- A first mortgage for 60% of the recorded purchase price from C.H. Mortgage Company. C.H. Mortgage is Michael Perry's mortgage company.
- A second mortgage for 30% of the recorded purchase price from Michael Perry.
- A third mortgage for 11% of the purchase price from Perry. Note that the second and third mortgages were granted by Perry as an individual rather than by C.H. Mortgage.
- In sum, most unit buyers received 1% more in mortgage funds than the prices of their units.

- After the sales nearly all the first, second and third mortgages were sold or "assigned" in legal terms, by Perry and Radcliffe Realty to Harold Brown.
- Brown lateR assigned the mortgages back to Michael Perry.
- In 1988, after Brown had assigned the mortgages back to Perry, nearly all were sold to Royal Palm Savings, a Florida Savings and Loan institution.

The second set of sales transactions occurred between August and October 1987 with most of the sales occurring on two dates: October 10 and October 27, according to Registry documents. Ten individuals bought the remaining nineteen units in the building. Buyers included Mark Linsky, Bruce Linsky, Herta Linsky, Murray Yellin and Mildred Yellin. As opposed to the first set of transactions many of these transactions appear to have received no recorded mortgages at all. It is unclear how the buyers actually paid for their units if they received no mortgages.

The federal government declared Royal Palm Savings insolvent in March 1990 and brought the institution under the control of the Resolution Trust Corporation (RTC).

(Royal Palm also purchased mortgages from William Lilly, one of the developers of 63-70 Burbank Street in the Fenway, the other building profiled in this report. Lilly was indicted in December 1990 for allegedly defrauding lending institutions).

As of late 1990, the RTC had begun foreclosure proceedings on at least 15 of the 22 mortgages purchased by Royal Palm, according to information from the RTC and listings in *Banker and Tradesman.* The RTC initiated foreclosure proceedings because the mortgage holders were not making mortgage payments.

Twelve of the 41 units owe city taxes, according to 1990 records from the Boston Collector-Treasurer's office.

According to 28 Quint Avenue tenant Elisabeth Schneider, developer Michael Perry "promised a new boiler, a new elevator, a new electrical system and carpeting in the hallways. But all of these promises have gone by the wayside."

A number of physical maintenance problems have occurred in the building according to the tenants which include:

- Several periods of days with either over-heating or no heat at all. The heating system broke down for a day-and-a-half in December 1990 when temperatures outside were in the single digits.
- Periods without hot water including three consecutive days without hot water during winter 1990-91.
- In winter 1989-90 a leaking water pipe dripped through three floors of apartments. The leaking pipe later burst and flooded and entire dwelling unit.
- The elevator was broken for 13 months in 1989 and 1990.

- Vagrants have been seen by tenants loitering in the basement. Tenants believe the vagrants got into the building through basement doors which have been periodically broken.

According to tenants, five different management companies have come and gone in the last five years at 28 Quint. Now, one company is assigned to take care of the individual units while another maintains the common areas. Tenants say they are unsure about which company to call for which problems.

The Allston-Brighton Community Development Corporation (ABCDC) and the Massachusetts Tenants Organization have been assisting tenants at 28 Quint Avenue to put pressure on the building owners and management companies to make needed building repairs.

The ABCDC is exploring the possibility of purchasing a majority of the units in the building in order to redevelop the 28 Quint as stable, affordable housing. The ABCDC strategy involves purchasing the former Royal Palm units from the RTC. RTC staff person Toni Meyer said that RTC disposition of their units is proceeding slowly, in part due to bankruptcies of some of the former unit owners.

BUILDING PROFILE #2

63-70 BURBANK STREET, THE FENWAY

..Sixty-three to seventy Burbank Street is a set of two, five story buildings on opposite sides of Burbank Street in the Fenway. Of the 102 units, only 9 are occupied by their owners, according to 1990 Boston Assessing Department records. Twenty-eight units are in some stage of the foreclosure process.

The buildings were converted to condominiums in 1985. Two year later, in 1987 the Attorney General sued the investors for systematic neglect of building maintenance and over one thousand code violations. Today, residents say building deterioration continues and many of the code violations remain.

Reported physical problems in recent years include roof leaks, overflowing toilets, rodents and exposed wires. Loose bricks fell into the heating system in October 1990 and started a fire, according to a unit owner. "The lobby going downstairs looks like a slum," a unit owner said.

Several crimes have been reported in the buildings over the last twelve months. The Area D police reported several incidents of trespassing during fall, 1990. A trespasser was arrested for cocaine possession. Two other trespassers beat up an employee of the building's management company. Neighbors report that a prostitute has been observed conducting business in one of the units.

The Burbank Street Realty Trust purchased the buildings for $3.5 million in 1985. Capitol Bank and Trust Company wrote acquisition - rehabilitation loans for $4.8 million. It is not clear why the Burbank Trust needed $1.3 million above the purchase price. Records at the Boston Inspectional Services Department show that a total of $110,000 was spent on renovations from 1985 through 1988.

According to a November 6, 1989 article in the *Boston Business Journal*, documents from the Suffolk County Registry of Deeds show William Lilly, Laurence Shapiro and John Dillon as the principal investors and developers of 63-70 Burbank. Lilly, who called himself the "condo king," was indicted in December, 1990 for alleged participation in a scheme to defraud lenders.

Most of the units sold during the four months between November 1986 and February 1987. Approximately 70 of the 102 units were purchased by investors who bought more than one unit in the building.

William Lilly and his associates apparently acted as both seller and lender. Stephmar Realty, headed in name by John Dillon, sold the units and granted first mortgages to the many buyers. Most of the buyers of multiple units took "balloon" mortgages with the entire principal due in three years. The Progressive Consumers Federal Credit Union gave second mortgages of $6,000 to $8,000 for 34 of the units.

About 11 of the units re-sold over the next two years at an average price 35% above the first. Units that first sold for $65-75,000 re-sold for $85-100,000. Since 1988, with the condo market cooling, only a few units have sold.

In 1987 Lilly sold the Stephmar balloon mortgages to Royal Palm Savings in Florida. He sold the Burbank debt to Royal Palm in a package along with some 360 mortgages from his other developments, according to the *Boston Business Journal* of November 6, 1989.

As balloon payments came due, many of the holders of Royal Palm mortgages defaulted and Royal Palm, now controlled by the federal, Resolution Trust Corporation (RTC) began foreclosures. At least 28 of the 102 units are now in some stage of the foreclosure process. Most of these foreclosures were initiated by the RTCacting in control of Royal Palm. Dime Savings Bank of New York has five of the 28 foreclosures.

The building residents and the condominium association experienced financial difficulties from the start. According to a November 13, 1989 *Boston Business Journal* article the association inherited an $80,000 water bill and no cash reserves from the convertors. Condo fees per unit doubled in the first year from $80 to $160. Numerous special assessments have been levied since. One owner of several units never paid fees at all and now owes the association over $12,000 in back fees.

It appears that the Burbank owners also have struggled to pay utility bills in recent years. As of March, 1990 the condo association owed $2,055 to Boston Edison and $1,775 to Boston Gas, about 20 months worth of arrears. As of September, 1990 $9,687 or 18 months in fees was due the Boston Water and Sewer Commission and a water shut-off was scheduled for October.

The Fenway CDC is exploring the possibility of purchasing a majority of the units in the building in order to redevelop it as stable, affordable housing.

ENDNOTES

[1] Boston Assessing Department data, from condominium master deeds filed at Suffolk County Registry of Deeds, compiled by Rolf Goetze, Boston Redevelopment Authority.

[2] Update of 1988 estimate based on Boston Redevelopment Authority and Boston Assessing Department data as cited in Goetze, Rolf, "Condominium Development in Boston 1969-1987", Boston Redevelopment Authority, August, 1988.

[3] Office of the Collector-Treasurer data, City of Boston.

[4] Ibid., [1].

[5] Ibid., [1].

[6] Ibid., [2] and Goetze, Rolf, "Condominium Development in Boston 1969-1987", Boston Redevelopment Authority, August, 1988.

[7] Ibid., [6].

[8] Boston Assessing Department data. "Resident-owned" condos are those for which owners receive the city residential tax exemption. Estimates by Assessing Department staff and most others involved in the condo market believe this to be a very accurate representation of resident-occupancy. "Unsold" condominium are those for which the Assessing Department has not recorded a price, through October, 1990. "Investor-owned" are those neither resident-owned nor unsold. "Absentee-owned" throughout this study refers to all those not "resident-owned".

[9] Ibid., [8].

[10] Counts of units owned by owners who own multiple units were derived with a computer match owner names. Since only exact matches of names appear in the counts, the figures are likely under-estimates. In other words, the actual portion of condos owned by owners who own more than one unit is probably higher than the 43% reported.

[11] Achtenberg Emily and Rebecca Stevens,, *Losing Ground: The Impact of Condominium Conversions on Boston's Housing Stock and Neighborhoods, for the Massachusetts Tenants Resource Center June, 1988.*

[12] *Housing Crisis! A Report on Federal Policies and Housing in Boston, Massachusetts,* Housing '90 Campaign, Low Income Housing Information Service and Massachusetts Affordable Housing Alliance, August, 1990.

[13] 1986-1989 price and volume figures from *Banker and Tradesman* "Trendlines" reports as compiled by Rolf Goetze of the Boston Redevelopment Authority. 1990 figures are projections based on the first three quarters of "Trendlines" data. No direct measures of Boston condo sales are available pre-1986. The 1984 and 1985 figures are estimates derived from the Multiple Listings Service data on condo sales in Greater Boston.

[14] "Trendlines Reports", *Banker and Tradesman,* 1986 - 1990.

[15] See Exhibit 3.

[16] See Exhibit 6 for detail on assumptions used to derive sale prices.

[17] "Trendlines Reports", *Banker and Tradesman,* 1990. 1990 median for Allston through three quarters is $115,500, for Brighton, $104,000.

[18] As cited in "Market Briefings: The Residential Real Estate Market, third Quarter 1990", Greater Boston Real Estate Board, compiled from Multiple Listing Service (MLS) data for Greater Boston. Greater Boston encompasses 87 cities and towns. The Multiple Listings Service does not include all condominiums. The MLS Greater Boston set of condos is likely of higher quality than the population of all condos in the city of Boston. Current days on the market for all Boston condos is probably higher than the MLS Greater Boston figure.

[19] *Boston Globe,* January 12, (?) 1991.

[20] Case, Karl, and Robert J. Shiller, "The Behavior of Buyers in Boom and Post-Boom Markets", *New England Economic Review,* November/December 1988, p.45.

[21] Interview with Karl Case.

[22] Boston Assessing Department.

[23] "Developer Charged With Cheating on Real Estate Loans Totalling $11m", *Boston_Globe,* December 21, 1990, pp.77,79.

[24] "Jury Convicts Three for Arranging Fraudulent Loans from Comfed", *Boston Globe,* December 21, 1990, pp.77,79.

[25] "Condo Fraud Cases Coming to Light", *Boston Globe,* January 29, 1991, pp.23,33.

[25a] "Appraisals for Sale Undermine Real Esate Values", *American Banker,* May 18, 1988, p.4-5,24, reprinted from *Grant's Interest Rate Observer.*

[26] See Exhibit 7 for detail on assumptions used to derive hypothetical loss.

[27] Compiled from *Banker and Tradesman* listings of foreclosures and Boston Collector-Treasurer data on tax delinquency. In this report the terms "in foreclosure" or "in the foreclosure process" describe condos listed in the "Petitions to Foreclose" section of *Banker and Tradesman.* Such properties have had foreclosure proceedings initiated but have not necessarily been taken by the lender.

[28] *Banker and Tradesman* listings of petitions to foreclose.

[29] Ibid, [28].

[30] According to Bob Foster, Easter Region Director of Standards, FNMA.

[31] Ibid., [28].

[32] *New York Times,* August 26, 1990, Sect. 3, p.1.

[33] As of June 30, 1990 First Mutual was operating with equity at less than five percent of assets. Northeastern Mortgage was suspended from selling mortgages to the Federal Home Loan Mortgage Corporation and its parent University Bank had equity below five percent of assets as of June 30, 1990. Though less data is available is available about Progressive Consumers it is considered an unstable institution by industry experts.

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[51] This regulatory change was recommended by Bill Dischino and Susan Wade of The Finch Group Management Company and supported by others involved with condominium property management interviewed for this report.

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